

EXHIBIT A



Internal Audit Report
Advanta Bank Corp.

Advanta Business Cards
Collections Incentive
Audit Review

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Executive Summary

OVERVIEW

Internal Audit recently completed a review of the design and operating effectiveness of internal controls over the Advanta Business Cards Collections Incentive Compensation process. Collections employees who reach pre-defined performance levels are eligible to receive additional bonus compensation. The purpose of the Incentive Compensation Plan is to reward and retain exemplary performers while promoting teamwork through the use of team and individual bonus awards.

OVERALL OPINION ON THE SYSTEM OF INTERNAL CONTROLS

In our opinion, the system of internal controls related to Business Cards Collections Incentive Compensation process requires strengthening in the following areas: *Incentive Plan Approval and Clarity; Incentive Plan Execution and Incentive Plan Monitoring*. In addition, collections incentive plan standard operating procedures should be updated in conjunction with implementing the necessary process and control enhancements to promote further consistency in operational workflow.

We have discussed the findings noted in the *Control Design Enhancement Recommendations* section of the report with Advanta Business Cards Collections Management. Their responses, including plans for corrective action, follow each finding.

Audit Scope

SCOPE SUMMARY

The scope of the audit review included an evaluation of the design and operating effectiveness of internal controls, review of operating procedures in effect during the period January 2005 to September 2005, and certain detailed testing based on relative risk to ensure:

- Roles and responsibilities are clearly defined.
- Formal procedures for all key processes are appropriately documented.
- Proper segregation of duties exists over all key functions.
- Management Control Reports are in place and provide the necessary information for monitoring key functions.
- Quality assurance activities are formalized, comprehensive, timely and documented.
- Appropriate retention guidelines are established and followed for primary supporting documentation.
- Compensation Plans are properly analyzed, formalized, approved, documented and monitored. In addition, these initiatives are in compliance with management's objectives and established policies (e.g., ABC Credit Policy) and procedures.
- Incentive calculations are accurate, reviewed and approved prior to submission to Payroll for processing.
- Logical access to the Collections Incentive and Reporting Webby Applications is appropriately restricted.
- Standard operating procedures and practices promote compliance with applicable Federal Regulations.

Control Design Enhancement Recommendations

This section contains a description of the control design enhancement recommendations along with Management's action plans.

1. Incentive Plan Approval and Clarity

Collections Management should enhance the Collections Incentive Compensation Plan to include additional detail and clarity pertaining to certain incentive oversight and eligibility requirements. In addition, the Incentive Plan should be formally approved and periodically evaluated by appropriate senior management. These enhancements will ensure that the Incentive Plan promotes compliance with Federal Regulations, ABC Policies, Collections Procedures and Management objectives. *Details were provided to Management.* We recommend that Collections Management:

- Formalize the roles and responsibilities for senior management oversight of the Collections Incentive Plan. This should include a requirement for formal approval of each new or amended incentive compensation plan and the frequency for periodic re-evaluation. The 2005 Incentive Plan contains requirements for formal Incentive Plan Committee approval of both the plan and payment of all awards under the plan however, there was not evidence of formal Committee approval.
- Clearly define the incentive impact of non-compliance with ABC Policies, including the impact to the standard incentive payout (i.e., "team bonus") and any special incentives (i.e., "spot bonus"). This also requires a clear definition of the incentive impact of procedural versus policy items, including Quality Assurance's interpretation of such items. The plan and related practices should require that if there is an identified instance of non-compliance with ABC Policy, the responsible employee will be disqualified from all standard and special incentive awards for that month. We noted in the 2005 Incentive Plan that the incentive impact of non-compliance with ABC Policy was not clear and therefore an employee could receive an incentive in the month where there was an identified instance of non-compliance.
- Include the Progressive Discipline Matrix clearly defines the progressive disciplinary steps that should be followed for Advanta employees, including coaching through termination. This matrix was previously included in the 2004 plan but was inadvertently excluded from the 2005 plan. The inclusion of this matrix is especially important since the plan states that a collector may not be eligible for incentives if they have been adversely documented regarding performance within the award period which is generally interpreted by Collections Management as a written warning.
- Formalize the approval and payout process for special incentive awards ("spot bonus"). The plan should include defined eligibility, approval and documentation requirements. Eligibility requirements should include full compliance with ABC Policies. The 2005 Incentive Plan does not currently address special incentive awards, however in practice, the payout for these awards can be as much as or greater than the standard team bonus.
- Clearly define the guidelines for the use of VP overrides. This should include defined acceptance criteria as well as approval and documentation requirements. The 2005 Incentive Plan does not currently address VP overrides although they are routinely utilized.

Management Action Plan:

Collections Management will enhance the Collections Incentive Compensation Plan to include additional detail and clarity around senior management oversight and approval practices, eligibility requirements, impacts of procedural and policy non-compliance, and the use of special bonuses and management overrides. These enhancements will be formally documented, reviewed with Internal Audit and implemented by December 31, 2005, and will be incorporated into the 2006 Plan documentation.

Control Design Enhancement Recommendations

1. Incentive Plan Approval and Clarity, continued:

Management Action Plan, continued:

- Our ability to meet this targeted deadline is contingent upon the collaboration of Credit Administration and Legal as we seek review of Bank policy treatments regarding third party discussions during settlement negotiations, system errors and other exception processes that may impact the collection agent incentive awards. If a technicality with a current procedure occurs necessitating a VP override, these situations will be escalated to Collections Senior Management, Internal Audit, Risk Management and/or Credit Administration for review as appropriate. Over the next quarter, meetings with Legal, Collections Management and Credit Administration will occur to determine where Bank policy and procedure might be redefined.
- For the 2006 Incentive Plan approval, a committee of external partners consisting of Legal, Human Resources, Finance, and Collections Management will be designated to review and approve the plan.
- The formal identification of an "incentive analyst" will be written into the job description of our Collection MIS Business Analyst in Horsham to formalize this role.
- Creation and development of daily spot awards or special incentives will be written into the 2006 Plan document describing the process for eligibility, reason for the spot award, payroll handling, and the Collections Quality Analyst's validation of results.
- Proper Vice President approvals for an incentive payout override and spot award communications will be required and added to the 2006 Plan incentive control documentation.

Control Design Enhancement Recommendations

2. Incentive Plan Execution

Collections Management should implement certain process and control enhancements to ensure that incentive payments are paid in accordance with the Incentive Plan requirements and Management objectives. *Details were provided to Management.* We recommend that Collections Management:

- Ensure that the incentive awards are not paid to collectors (and supervisors when appropriate) when instances of non-compliance with ABC Policies are identified. During our review, we noted that incentives have been paid out to collectors even though they have instances of non-compliance with ABC Credit Policy.
- Ensure that special incentive awards or "spot bonuses" are properly documented, including a clear description of the reason/criteria for the award and evidence of Management approval. During our review, we noted certain instances where spot bonuses did not have adequate documentation to support the reason/criteria for the award as well as proper approval.
- Ensure that VP overrides are clearly documented, including the detailed justification for performing the override. We noted in certain instances that while there was evidence of VP override approval, supporting documentation did not contain adequate explanation for the override.
- Continue the validation procedures put in place in May 2005 (performed by an individual not in the incentive plan) to ensure the accuracy and validity of spot bonus awards. In addition, we recommend that Management further automate the process of compiling and validating data for spot bonus payouts which is manually intensive and difficult to validate.
- Management Action Plan:
Collections Management will review incentive plan criteria with all Collections personnel and enhance the quality reviews performed by the Incentive Analyst over the incentive calculations by December 31, 2005 to ensure that:
 - Incentive awards are not paid to collectors (and supervisors when appropriate) when they have instances of non-compliance with ABC Policies. All exceptions in the interim will be escalated to Collections Senior Management, Internal Audit, Risk Management and/or Credit Administration for review, as appropriate.
 - Special incentive awards or "spot bonuses" are properly documented, including a clear description of the reason/criteria for awards and evidence of Management approval.
 - VP overrides are clearly documented, including the detailed justification for performing the override.All exceptions noted by the Incentive Analyst will be brought to the attention of the Senior Vice President of Collections.
- In addition, Collections Management will continue to have the Collections Quality Assurance Group perform an independent validation of all spot bonuses before payment. Management will continue to look for opportunities to automate the process of compiling and validating data for spot bonuses to improve the efficiency and effectiveness of the process.

Control Design Enhancement Recommendations

3. Incentive Plan Monitoring

Collections Management should strengthen collector performance and incentive plan monitoring to ensure incentive payments are made in accordance with the Incentive Plan, ABC Policies, Collections Procedures and Management objectives. In addition, enhanced monitoring tools will further assist Management in identifying trends related to non-compliance with ABC Policies as well as utilization of spot bonuses and VP overrides. *Details were provided to Management. We recommend that Collections Management implement the following reporting for periodic review:*

- Instances of non-compliance with ABC Policies by type, responsible VP/supervisor, collection bucket, and collector.
- VP overrides by responsible VP/supervisor, collection bucket, collector, reason for original disqualification and reason for override.
- Standard ("team") and special ("spot") incentive hit rates and payout amounts by responsible VP/supervisor, collection bucket and collector.
- NSF payments by responsible VP/supervisor, collection bucket and collector.

Management Action Plan:

Collections Management will implement additional collector performance and incentive plan reporting, including the recommended reports for ABC Policy non-compliance, VP overrides, team and spot bonus hit rates and payouts. While NSF check activity is not currently a trigger that warrants exception to an incentive and NSF payments are not removed from the current incentive calculation, Collections Management will continue to review NSF activity for trend analysis purposes.

Effective at the end of October 2005, Collections Senior Management will review these reports on a monthly basis in connection with the monthly incentive documentation package to ensure that incentive payouts are properly supported and to address specific issues or trends as appropriate.